SUBMISSION BY THE

CANADIAN LABOUR CONGRESS

TO THE

STANDING COMMITTEE ON

FINANCE, TRADE AND ECONOMIC AFFAIRS

RESPECTING THE ORDER OF REFERENCE

RELATING TO BANK PROFITS

opeiu225

June 1, 1982

It cannot by now have escaped anyone's notice that Canada is in deep and very unusual economic trouble. This is the second recession in two years, and every indication is that it will be the most devastating and protracted since the Depression of the 1930's. A million and a quarter Canadians are out of work. Close to 300,000 jobs have already been lost since the recession started and the number is still mounting. The incomes of most Canadians, contrary to the propagations of the government and much of the business community, are not leading, but lagging behind inflation. On the broadest measure of income (labour income per employed person) real wages and salaries have fallen consistently since the end of 1976, and are now 10 per cent lower than they were then. With this real wage experience, it is not surprising that both consumption and investment expenditure (other than resource-related investment) is sluggish. The economy is being run way below its capacity. Jobs, homes, farms and businesses are being lost at an accelerating pace.

This economic mess has in it some very unusual phenomena. Indeed so unusual are they that one has to go a long way back in economic history, back to the early decades of the century to find precedents for them. The first unusual phenomenon is that economic policy here, in the U.S. and the U.K. and in some other industrialized countries has been stood on its head. In the face of this deepening recession the federal government is deliberately

... 2

operating very deflationary monetary and fiscal policy. The internationally comparable data put out last December by the OECD in its Economic Outlook for 1982, data on money supply growth, real interest rates and government surpluses and deficits in relation to Gross National Product, indicate that monetary and fiscal policy in Canada has been tighter - more deflationary than in the United States and most other OECD countries. This is being done, it is said, to "fight" inflation. Inflation, however, is unbowed. It is the economy that is bloodied.

The second unusual phenomenon is that almost everyone in the economic system is loosing, with the noteable exception of the banks. Real wages are down, smaller business is failing and some of Canada's larger corporate institutions are tottering. Bank profits and the growth of Bank assets in contrast are up. It is difficult to ignore the evidence of real economic power inherent in this contrast.

These two phenomena are directly related. The government's monetary policy has pushed real interest rates to unprecedented heights. In 1981 real interest rates were in the 5-8 per cent range, and they have continued at the lower end of that range so far this year. This is twice (and more) as high as their historic norm. If your business is lending money it would be difficult to avoid making excellent profits at these rates of interest. To note, as the banks do, that the spread between the

... 3

rates at which they borrow and lend has not appreciably widened is not germaine in this highly unusual situation. What they have been doing is rolling over assets carrying lower real rates of return for assets carrying the higher real rate of return made possible by monetary policy. To this anyone who renewed a mortgage or a loan in 1981 can attest. This could be nothing else but profitable - for a while.

In a situation of no (or negative) economic growth and falling real wages, it will, of course, be difficult for people and businesses to meet the high real cost of their borrowing, and most difficult if not impossible for those with the least power in the economic system, the unemployed, workers, farmers and small business. Even some very large economic actors may find it impossible. Banks are now discovering this in the increasing number of non-current loans and losses in their portfolios. This is depressing bank profits now and may for some time yet. The substantial transfer of income from borrowers to the banks that took place in the high profit, high real interest rate circumstance of 1981 however, stays with the banks. It is unlikely to re-emerge as a revenue flow back to borrowers, unless banks reduce their inflationary expectations and lower both nominal and real interest rates. This is not probable.

Whether profits are too high or too low depends a great deal on perspective. Those making profits never consider them too high. They are

... 4

justified as strengthening the capital base of the enterprise. Whether they are too high or too low from the standpoint of the economy as a whole depends very much on the use to which the profits are put; whether they are being reinvested domestically, and in what way, or whether they are being placed abroad. In the case of bank profits very little is known about their use because there is very little public disclosure of bank business. From the perspective of trade unions, working people and the many unemployed people, bank profits in 1981 were unequivocally excessive and unjust. They were excessive in 1981 and continue to be so now because they represent an inequitable distribution of the costs of this recession and of the costs of process of adjustment - and failure to adjust - that the economy is going through.

The policies of the Reagan Administration in the United States, along with their mirror image here in Canada, have moved the world's economy into uncharted waters. For evidence that no one has a map, it is necessary to look no further than the increasing inability of economic forecasters to forecast even the short term with much retrospective accuracy. For working people in both industrialized and developing countries the cost in terms of unemployment and lowered standards of living is already intolerable. Some of Canada's major corporations are also finding the costs to be intolerable, and more can be expected to join their ranks if the course of economic policy is not soon reversed. This is a situation in which the viability of many of the country's most powerful economic institutions in the private and public sectors, and including banks, may be severely tested.

...5

In this situation, the Canadian Labour Congress considers that Members of Parliament have a profound responsibility in the interest of their constituents to carefully and critically monitor the performance and viability of Canada's major corporate institutions, and to watch that economic costs of this unnecessary recession are not disproportionately born by working people.

The Bottom Line

The expression 'the bottom line' is now part of the popular vocabulary. It means profit, or the net result of an enterprise. It also hopes to convey the sense that the user is singularly focussed on the essential. Profit however, is not analyzable as a distinct entity separate from the sum of the operations which give rise to it. Nor is profit the sole criterion of corporate performance. Corporations are economic and social institutions, with great influence and power to shape the economies and societies of which they are part. They have, and some recognize themselves to have, economic and social responsibilities beyond their institutional responsibilities for growth and profit.

A prudent banker would not extend a loan to a borrower only on the basis of the borrower's past profit record. The banker would wish to understand the borrower's overall operation, and the character of the borrowing enterprise: the reliability and competence of its management

... 6

and how the enterprise was viewed by its government, its community and its employees. In the view of the Canadian Labour Congress, a prudent Committee of the House of Commons would take a similar encompassing perspective on banks. The Committee has already heard some informative testimony. Much of that has been concerned not with profits last year and this, but rather with the behaviour of banks in extending credit and especially their behaviour in the spate of mergers and acquisitions of the recent past. There has been the suggestion that they may not have been as prudent as they should.

The Canadian Labour Congress is concerned about four aspects of the behaviour of the Canadian banking system:

1. The inter-sectoral allocation of credit by banks, and whether this is fully in the national economic interest;
2. The fairness of the banks' system of allocating credit among borrowers, and particularly whether as now in circumstances of credit constraint smaller borrowers are treated equitably in relations to large borrowers.
3. The rapidly growing size of the Canadian banking system's international operations and the implications this may have for their domestic operations and the conduct of exchange rate policy.
4. Labour relations in the banking industry; labour costs and profits are frequently set in contraposition, as when, for example it is argued

that level of one is the prime determinant of the level of the other; the employees of banks have a direct interest in the profits of their employers. and in how they are treated in the earning of those profits.

We believe this Committee of the House of Commons should also be concerned with these questions, and that it must deal squarely with them in its enquiry and the report if the public is to be relevantly informed about bank profits. In particular we think it important, in the public interest that the Committee ensure that it obtains sufficient accurate data to answer these questions.

Canadian Banks and Disclosure

Banks hold a privileged position in economic society. They are privileged to create money and credit. In the days before public regulation of the banking industry, the risks and costs of bank failure attaching to the creation of credit were borne directly by the owners and depositors of the bank. Now this privilege is granted as a matter of public policy, set out in the Bank Act and it is underpinned and guaranteed by public institutions, the Bank of Canada the Inspector General of Banks and the Canada Deposit Insurance Corporation, National Housing Act insurance and the Export Development Corporation. As well now, the public effectively assumes a good proportion of the contingent liability of major bank financial operations. Some of this liability is born directly by government

... 8

insurance schemes. The more important part is borne indirectly by the public. As recent experience in the automobile and agricultural implements industries has shown, and as forthcoming experience in the oil and gas industry may show the consequences of failure of a major corporate client of the banking system are now often beyond an economically and socially tolerable level, and can thus exact an infusion of public funds, through either subsidies or tax concessions to rescue the situation.

For all the considerable public support the Canadian banking industry now enjoys in the exercise of its privilege to create credit, there is in Canada a more concentrated, less regulated and less known industry than in most other industrialized countries. Compared to other banking systems, Canadian banks engage in less voluntary public disclosure of their activities and the requirements in law are less. Parliament and the public are not in a position to assess objectively how the banks are using the privilege granted to them and the market power they enjoy. The banks escape accountability for their privileges and power.

It is for these reasons that we consider that the first duty of the Committee to Parliament and the public should be that of satisfying itself that it has obtained sufficient information to assess the question of bank profits, and the concerns about how these profits are made.

... 9

The Allocation of Credit

Banks have steadily increased their share of the Canadian financial market. Over the most recent five year period (IV 1976 - IV 1981) chartered bank assets grew by 167 per cent, and their share of total assets of all financial institutions increased from 51 per cent to 59 per cent. There have also been significant shifts in the distribution of bank credit across various sectors of economic activity. For example, the share of residential mortgages in total Canadian dollar assets grew steadily from 4.3 per cent in 1970 to 12.4 per cent in 1978, decreased over 1979-80 and then picked up again in 1981. The overall disposition of general bank loans has also changed, with business loans increasing and personal loans decreasing. In the distribution of bank loans to industry, the share of the petroleum sector has mushroomed to account in 1980 for 29 per cent of total loans to (goods producing) industry. The share of loans to more labour intensive sectors, on the other hand has decreased; food and beverage from 15 per cent in 1970 to 11 per cent in 1980 and textiles, leather and clothing from 9 per cent to 4 per cent.

Some of this shift in the allocation of credit is of course, due to the pattern of economic development in Canada. But bank policy in the allocation of credit, such as between persons and businesses, will also have played a role. In times of credit constraint, when there are difficult choices to be made the role that bank policy plays in the allocation will be major.

... 10

There is not in Canada a real means, as distinct from suasion, for government to influence bank policy in this field. In the absence of an industrial strategy this is not surprising. Nor is there a means for the public to inform itself on what bank policy in this field is.

The Canadian Labour Congress has long been of the view that the means of both influence and information are much needed. A major element of Labour's Economic Program is the mobilization of financial resources for re-industrialization. The government must legislate to bring financial institutions - including banks, insurance and trust companies - under greater public accountability and control. This should include an annual public inventory and accounting of their investment programmes and the introduction by the Bank of Canada of credit quotas to direct investment toward specific industrial sectors and job-creation activities. A Canada Investment Fund should be established, comprising 15 per cent of pre-tax profits, to be used for publicly-decided development projects. As well, unions should be given controlling representation on negotiated pension and insurance funds. The CLC should examine the feasibility of creating a Workers' Bank.

The Banks as Employers

No discussion of the role of the chartered banks in society would be complete without an examination of their conduct as employers.

... 11

Labour relations within the banking industry fall under the jurisdiction of the federal government. In its Annual Report for 1977-78, the Canada Labour Relations Board (CLRB) reported that it heard more complaints against banks than against any other sector. Fully one-third of all complaints involved the banks. The Board's most recent report (1979-80) shows a marked deterioration in the attitudes and practices of the banks. Again, more complaints involving the banks were heard than involving any other sector. Banking's share of complaints increased to 42 per cent.

Personnel practices leading to complaints before the Board include: firing staff for union activities, transferring workers involved in a union in one branch to another non-unionized branch, and making unionized staff account for cash shortages at the end of the day from their own pay, while not requiring the same of non-unionized staff.

The current drive to organize bank workers does not represent the first attempt to provide them with the protections of union membership. Some efforts were made prior to the First World War and again during the 1940's, 1950's and 1960's.

A breakthrough for organizing occurred in June, 1977 when the CLRB reversed a ruling made in 1959 and stated that a branch was an appropriate bargaining unit. The Canadian Labour Congress launched its Bank Workers

... 12

Organizing Committee in September, 1977. Other unions involved in organizing bank employees include the Office and Professional Employees International Union (OPEIU), United Food and Commercial Workers International Union (UFCW), United Steelworkers of America (USWA), the Confederation of National Trade Unions (CNTU) and the Service, Office and Retail Workers Union of Canada (SORWUC).

The banks have resisted efforts to organize their employees. In the four year period ending November, 1981, a total of 131 applications for certification were approved - covering a fraction of the employees within the 7400 banks.

In an important decision issued in November, 1979, the CLRB ruled in favour of the Union of Bank Employees (CLC) on charges of unfair labour practices against the Canadian Imperial Bank of Commerce, the Royal Bank of Canada and the Bank of Montreal.

Dealing with the Commerce, the Board stated:

> "It has become apparent throughout the organizational attempts at various branches of the employer across the country, by several unions, that this employer has embarked on a campaign designed to discourage its employees from exercising their rights under the Code. Some attempts were blatant and blundering, others more sophisticated and subtle."

... 13

In September, 1979, the CNTU went on strike against the Royal Bank in a number of branches in Quebec. Management responded by flying in replacement personnel to its struck branches - a tactic illegal under Quebec's anti-scab law but not outlawed by the Canada Labour Code.

In the early stages of the 12-month strike, eight union activists were fired. They were eventually re-instated by CLRB order but not until December of 1980 - 15 months after the strike began.

During the Board's hearings, it was learned that the decision to fire came from a high-level executive committee in Montreal. The bank's anti-union bias was displayed not only in the dismissals, designed to intimidate employees, but also in its tactics of bypassing union negotiators and pitching wage offers directly to employees, along with letters encouraging them to return to work.

One of the most recent cases of unfair practices involved the Bank of Montreal whose senior management made false charges against the Union of Bank Employees in an attempt to discredit the union.

In a letter dated March 18, 1982 and distributed to employees, Roy Legge, Vice-President, Human Resources, was forced to set the record straight with the admission:

... 14

> "I wish to make it clear that , to my knowledge, no employee in the Sarnia branches have ever complained to the Canada Board (sic) of coersion or harrassment (sic) by the Union. Nor has the Bank filed any formal complaint of unfair labour practices against the Union. In short, it seems the charges against the Union were unfounded."

The Bank of Nova Scotia and the Toronto-Dominion Bank have also been required to send letters to employees apologizing for anti-union practices involving branches in New Waterford, Nova Scotia and Sydney, Nova Scotia, respectively.

Despite occasional rhetorical support for free collective bargaining, the banks' actions have been consistently in the opposite direction. In 1978, the Canadian Bankers Association appeared before the House of Common Standing Committee on Labour, Manpower and Immigration to argue against amendments to the Canada Labour Code which would ease requirements for certification and allow the CLRB to impose a first contract in cases in which the parties are unable to reach agreement.

The tactics currently employed by the banks in their attempts to block unionization and encourage decertification are more subtle than those formerly employed. Employeed are transferred out of unionized branches in order to dilute union support and achieve decertification. Negotiations are prolonged with the result that no sooner are retroactive agreements signed but negotiations for a new contract must start. In some cases, the banks

... 15

refuse to sign agreements for more than a one-year term in order, presumably, to facilitate the use of this strategy.

Bank negotiators are intransigent, refusing to incorporate into the agreement even the minimum employment standards demanded under Part III of the Canada Labour Code. Perhaps with an eye on continuing automation of bank operations and the move to greater use of part-time help, bank negotiators are attempting to exclude part-time employees from contract provisions.

In view of the frequent claim by the banks that employees do not need unions to achieve improvements in wages and working conditions, we draw your attention to a recent announcement by the Canadian Imperial Bank of Commerce. Despite a reported after-tax profit of $312 million in 1981, the bank announced in April, 1982 that it was reducing annual merit increases by one-third. The cutback will affect 34,000 management and clerical staff.

From those to whom much is given, much should be expected. Canadian chartered banks enjoy a privileged position in the economy and in society as a whole. As employers, they must obey not only the letter of the law - which they do infrequently enough - but also the spirit of the law.

Respectfully submitted on behalf of the
CANADIAN LABOUR CONGRESS

Dennis McDermott, President
Donald Montgomery, Secretary-Treasurer
Shirley G. E. Carr, Executive Vice-President
Julien Major, Executive Vice-President

May 21, 1982
opeiu225